

**SUMMERFIELD-PETERSBURG  
JOINT BUILDING AUTHORITY**  
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

For the Period from June 27, 2007 through June 30, 2008

SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

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June 30, 2008

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### Independent Auditor's Report

To the Board of Commissioners  
Summerfield-Petersburg Joint Building Authority

We have audited the accompanying financial statements of the Summerfield-Petersburg Joint Building Authority as of and for the period from June 27, 2007 through June 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Summerfield-Petersburg Joint Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Summerfield-Petersburg Joint Building Authority for the period from June 27, 2007 through June 30, 2008, and the change in its financial position and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

December 5, 2008

## SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

### *Management's Discussion and Analysis* *June 30, 2008*

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This section of the Summerfield-Petersburg Joint Building Authority's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance from June 27, 2007 through June 30, 2008. Please read it in conjunction with the Authority's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements that presents all the Authority's revenues and expenditures.

#### **Using this Annual Report**

This annual report consists of the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. Along with the footnotes, they provide detailed financial information concerning the Summerfield-Petersburg Joint Building Authority. This section, the Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information. The following summary illustrates how the various parts of this annual report are arranged:

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

Financial Statements

*Notes to the Basic Financial Statements*

#### **Financial Overview**

In analyzing the Authority's financial position, it is important to recognize the purpose of the Authority. The Authority was formed in 2006 to finance and construct improvements to the Summerfield-Petersburg Library. The Authority's income primarily came from the sale of the Library building through a capital lease to its two local units of government: Summerfield Township (84 percent), and the City of Petersburg (16 percent). A comparative analysis will be provided in future years as prior year information will be available.

# SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

*Management's Discussion and Analysis*  
*June 30, 2008*

## Financial Overview (Continued)

The following table shows the major components of net assets as of June 30, 2008.

**Table 1:**

### Condensed Statement of Net Assets

	<u>2008</u>
Current and other assets	\$ 43,300
Non-current assets	<u>565,000</u>
<b>Total Assets</b>	608,300
Current and other liabilities	34,488
Long-term liabilities	<u>565,000</u>
<b>Total Liabilities</b>	<u>599,488</u>
Net Assets	
Restricted for:	
Debt service	<u>8,812</u>
<b>Total Net Assets</b>	\$ <u>8,812</u>

As depicted in Table 1, the Authority's net assets were \$8,812 at June 30, 2008. Of this amount, none was unrestricted. This amount represents the *accumulated* results of all past years' operations. The restricted net asset balance is for future debt service requirements.

The entire statement of net assets can be found on page 6 of this report, which will provide a greater level of detail than shown in the above table.

## SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

### *Management's Discussion and Analysis* *June 30, 2008*

#### **Financial Overview (Concluded)**

The results of this year's operations for the Authority as a whole is reported in (Table 2), which shows the changes in net assets for the period from June 27, 2007 through June 30, 2008.

**Table 2:**

#### **Changes in Net Assets**

	<u>2008</u>
<b>Operating revenue</b>	\$ 12,900
<b>Operating expense</b>	<u>631,157</u>
<b>Net Operating income (loss)</b>	(618,257)
<b>Net non operating revenue</b>	<u>627,069</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 8,812</u>

As indicated in Table 2, the Authority had operating revenue of \$12,900, and operating expense of \$631,157. The operating expenses reflect the total cost of the Library construction. The net non operating revenue was \$627,069. This amount includes the sale of the capital lease to the City and the Township for \$625,000 and interest expense on the bonds of \$30,475. For further detail refer to the Statement of Revenues, Expenses, and Changes in Net Assets on page 7. Upon completion of construction, the Authority began leasing the Library to Summerfield Township and the City of Petersburg under a contract capitalized as a direct financing lease. Lease payments are equal to the annual required principal and interest payments due on the bonds. A local millage is collected by Summerfield Township and the City of Petersburg to meet the financial requirements of the lease. The Authority experienced an increase in net assets of \$8,812.

#### **Future**

No new projects are anticipated for future years.

#### **Capital Asset and Debt Administration**

##### **Capital Assets**

The Authority owns no capital assets at June 30, 2008.

##### **Debt**

At June 30, 2008, the Authority had Bond debt outstanding of \$595,000. The Authority issued bonds to finance the construction of the Summerfield-Petersburg Library. Details regarding long term debt are included in Note 5 to the financial statements.

# SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

*Management's Discussion and Analysis*  
*June 30, 2008*

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## **Contacting the Authority's Management**

This financial report is designed to provide the Authority's customers, investors and creditors with a general overview of the Authority's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Summerfield-Petersburg Joint Building Authority at (734) 279-1210.

SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

*Statement of Net Assets*

*June 30, 2008*

	<u>2008</u>
<b>Assets</b>	
Current portion of lease receivable	\$30,000
Lease receivable, due after one year	565,000
Bond financing costs (net of amortization)	<u>13,300</u>
Total Assets	<u>608,300</u>
<b>Liabilities</b>	
Accrued interest payable	\$4,488
Long-term liabilities:	
Due within one year	30,000
Due in more than one year	<u>565,000</u>
Total Liabilities	<u>599,488</u>
<b>Net Assets</b>	
Restricted for:	
Debt service	<u>8,812</u>
Total Net Assets	<u><u>\$8,812</u></u>

See accompanying notes to the financial statements.



**SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY**

*Statement of Revenues, Expenses, and Changes in Net Assets  
For the Period From June 27, 2007 through June 30, 2008*

	<u>2008</u>
<b>Operating Revenue</b>	
Local contributions	\$12,900
<b>Operating Expenses</b>	
Construction costs	<u>631,157</u>
Net Operating Income (Loss)	<u>(618,257)</u>
<b>Non Operating Revenue (Expense)</b>	
Sale of capital lease	625,000
Finance income from long-term lease	26,112
Interest income	7,521
Interest on bonds payable	(30,475)
Other expenses	<u>(1,089)</u>
Total Non Operating Revenue (Expenses)	<u>627,069</u>
<b>Change in Net Assets</b>	8,812
Net Assets - Beginning of year	<u>0</u>
Net Assets - End of year	<u><u>\$8,812</u></u>

See accompanying notes to the financial statements.

**SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY**

*Statement of Cash Flows*  
*For the Period From June 27, 2007 through June 30, 2008*

	<u>2008</u>
<b>Cash Flows from Operating Activities</b>	
Cash received from local units	\$12,900
Payments to contractors and suppliers	<u>(631,157)</u>
Net Cash Provided (used in) Operating Activities	<u>(618,257)</u>
<b>Cash Flows from Capital Related Financing Activities</b>	
Proceeds from issuance of long term debt	625,000
Bond issuance costs	(14,264)
Cash received from capital lease contract	56,112
Principal paid on bonds	(30,000)
Interest and fees paid on bonds	<u>(26,112)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>610,736</u>
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	<u>7,521</u>
<b>Net Increase (Decrease) in cash</b>	0
Cash - Beginning of year	<u>0</u>
Cash - End of year	<u><u>\$0</u></u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>	
Operating Income (loss)	<u>(\$618,257)</u>
Net Cash Provided (used in) Operating Activities	<u><u>(\$618,257)</u></u>

See accompanying notes to the financial statements.

## SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

*Notes to Financial Statements*  
*June 30, 2008*

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### Note 1      Reporting Entity

The Summerfield-Petersburg Joint Building Authority (the "Authority") was incorporated in 2006 to finance, construct, and furnish improvements to the existing public library. The facility is owned by the Authority and is leased to the City of Petersburg and Summerfield Township. The Authority is governed by a three-person board, with the City and Township each appointing one member, and with the third member being mutually appointed.

The financial operations of the Authority are presented as a joint venture in the annual financial statements of both the City of Petersburg and the Township of Summerfield. In accordance with generally accepted accounting principles, there are no component units included in these financial statements.

### Note 2      Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental building authorities. Following are the more significant of the Authority's accounting policies.

#### A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Except for interest on the lease contracts receivable and bonds payable, which are recorded as revenue and expense on their due dates. The construction costs of the Library were capitalized as incurred. At the time the facility was complete and turned over to the City and Township, those costs were reclassified based on a capital lease signed by the City and Township and recorded at the net present value of future lease contract payments. Any additional expenses relating to construction and not provided for at the time the facility was completed are expensed as incurred.

The Authority reports the following major fund:

#### Joint Library Fund

The Authority constructed and improved the current library, and leases this facility and equipment to the City and the Township under a contract collateralized by the limited tax full faith credit pledge of both the City and the Township.

#### B. Capital Assets

The Authority has lease contract with the City of Petersburg and the Township of Summerfield covering the Library, which was constructed by the Authority (see Note 4). Since these leases represent financing transactions, the Authority has recorded the contracts as a receivable in lieu of recording the Library facilities as assets.

#### C. Budgets

The budget for the Authority is a project budget rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements.

#### D. Other Assets

Other assets consist of bond financing costs which will be amortized over the period in which the bonds are outstanding.

# SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

## *Notes to Financial Statements* *June 30, 2008*

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### Note 2      Summary of Significant Accounting Policies (Concluded)

#### E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

### Note 3      Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States of any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority held no deposits or investments at June 30, 2008.

### Note 4      Lease Receivable

Non-cancellable long-term leases are in effect with both the City of Petersburg and the Township of Summerfield. The City and Township are also obligated for 16 percent and 84 percent, respectively, of the Authority's debt service costs.

The leases covering debt service costs are financing transactions under which the Authority issued general obligation unlimited tax bonds for the purpose of constructing the Library. Rental payments under the lease agreements, which are pledged as collateral for the bonds, have been set at the amount estimated as necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, ownership of the facility will be turned over to the City and the Township.

Under the agreements, bond proceeds are restricted for the purpose of construction or making bond principal and interest payments.

SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

*Notes to Financial Statements*

*June 30, 2008*

Note 4      Lease Receivables (Concluded)

At June 30, future minimum lease payments receivable under this direct financing lease are as follows:

	Joint Library Building
2009	\$57,074
2010	60,800
2011	59,312
2012	57,826
2013	56,338
2014	59,762
2015	57,962
2016	61,162
2017	59,138
2018	57,112
2019	59,976
2020	57,600
2021	60,226
2022	57,612
	<hr/>
	821,900
Less: unearned interest	(226,900)
	<hr/>
Net Lease Receivable	<u><u>\$595,000</u></u>

# SUMMERFIELD-PETERSBURG JOINT BUILDING AUTHORITY

## Notes to Financial Statements

June 30, 2008

### Note 5      Long-Term Debt

The Authority's 2007 Bonds were issued to finance construction of the Summerfield-Petersburg Library. In June 2007, the Authority sold bonds, amounting to \$625,000 with a 4.6292 percent average interest rate. Bond principal and interest payments are included in the tenants' rental rate and are secured by the full faith and credit of both municipalities. The bonds were sold at par. The payment schedule for the bonds is as follows:

Fiscal Year	Interest Due		Principal Due	Totals
	November 1	May 1	May 1	
2009	\$13,537	\$13,537	\$30,000	\$57,074
2010	12,900	12,900	35,000	60,800
2011	12,156	12,156	35,000	59,312
2012	11,413	11,413	35,000	57,826
2013	10,669	10,669	35,000	56,338
2014	9,881	9,881	40,000	59,762
2015	8,981	8,981	40,000	57,962
2016	8,081	8,081	45,000	61,162
2017	7,069	7,069	45,000	59,138
2018	6,056	6,056	45,000	57,112
2019	4,988	4,988	50,000	59,976
2020	3,800	3,800	50,000	57,600
2021	2,613	2,613	55,000	60,226
2022	1,306	1,306	55,000	57,612
	<u>\$113,450</u>	<u>\$113,450</u>	<u>\$595,000</u>	<u>\$821,900</u>

### Note 6      Contingent Liabilities

There are no known contingent liabilities of the Authority.

### Note 7      Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors, and omissions; injuries to employees; and natural disasters. The Building Authority is insured by the Township of Summerfield and City of Petersburg Library.



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In planning and performing our audit of the financial statements of the Summerfield-Petersburg Joint Building Authority for the period from June 27, 2007 through June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Joint Building Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Joint Building Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Joint Building Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Joint Building Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

#### Uniform Chart of Accounts

During the audit, we noted that the Joint Building Authority did not maintain a chart of accounts in compliance with the State of Michigan's uniform chart of accounts for local units of government. It is important that all accounts contain the proper account structure consisting of a 9 digit account number indicating the fund, activity, and the object. Please refer to the Michigan Department of Treasury's Uniform Chart of Accounts for Counties and Local units of Government for guidance. If you need assistance updating your accounts please contact us.

#### Segregation of Duties

As with many smaller governments, staffing limitations and cost constraints affect the Joint Building Authority's ability to completely segregate accounting duties. It is important that the Joint Building Authority design and implement checks and balances between the chairman, secretary, and treasurer as part of their internal control structure. One of those checks and balances is a monthly reconciliation between the secretary and the treasurer. During the fiscal year, this process was not performed timely and we noted months where no reconciliation was performed. We suggest that the secretary and the treasurer perform a monthly reconciliation of all recorded general ledger activity. If you need assistance in developing controls please contact us.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Financial Statements

The Summerfield-Petersburg Joint Building Authority does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. As is the case with many smaller and medium-sized entities, the government has relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes. As a result of this condition, the government lacks internal controls over the preparation of its financial statements in accordance with GAAP.

This communication is intended solely for the information and use of the Board members, management, and others within the Joint Building Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink, reading "Cooley Hahl Wohlgemuth & Carlton". The signature is written in a cursive, flowing style.

December 5, 2008